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INTERNATIONAL PRIVATE ENTERPRISE:
WHEN WILL THE REAGAN REVOLUTION BEGIN?

The Challenge

Economic policies in the Third World (and industrial nations) are shifting toward market-oriented approaches. Many of these countries are just beginning to initiate practical policies which will gain momentum over the next 10 years. The President's goals as spelled out at Cancun and Williamsburg thus were timely and have the potential of delivering international economic growth through the stimulation of private enterprise. The strategy and mechanisms for carrying out the goals are, however, flawed. Thus, the challenge of implementing the President's program remains unfulfilled.

The Opportunities

This changing climate presents significant economic opportunities for the United States:

- To increase the promotion of small-scale enterprises within LDCs and the acceptance of new technologies.
- To enlarge the flow of foreign direct investment, and to help state enterprises to become more efficient and find ways to relinquish some functions to the private sector.
- To strengthen its trade, finance, and investment links with LDCs based upon a growing mutuality of economic interest.

Developing countries have finally perceived that the Soviet Union and its client states represent dismal examples of economic and industrial productivity. In addition, Soviet domestic economic and foreign financial constraints over the next 10 years will make Moscow even less able to compete in non-military sectors. Thus:

- the changing climate should strengthen the West's position relative to that of the Soviet Union if we take advantage of it, and
- in specific countries US security interests will often coincide with opportunities for economic support and can be mutually reinforcing.

The Obstacles

The growing American economy is an irresistible example impelling change in the economies of both the industrial and Third World countries. Although the richer LDCs have been able to advance economically by exporting, the

poorer LDCs will have to depend on the emergence of small-scale, domestically-oriented enterprises as their main engine of growth.

- These poorer countries are groping with new approaches because they have seen their socialist-centralized economic policies fail and realize they cannot afford the burden of inefficient government bureaucracies and ponderous state enterprises.
- They have also seen how price incentives in China and elsewhere have boosted agricultural production and general economic growth.

But many Third World leaders are moving slowly because they feel threatened by a loss of political control caused by the diffusion of economic power.

- How does the US encourage a tilt toward free-market policies while helping reduce the fears as to political instability?

AID is not the solution. In fact, it is part of the problem. Western countries have built ponderous bureaucracies of their own which for the most part administer security assistance and welfare without contributing to economic growth.

- Bureaucratically, AID opposes new initiatives to address this issue which are beyond its control, as a matter of turf.

AID has an important role as part of the process. It can use its programs to create leverage for policy change and the dismantling of state enterprises. However, it has neither the philosophy nor the capability to promote private enterprise.

Thus, we are at a stalemate. The mechanism does not exist to pull together security, welfare, trade liberalization, and economic interests for the constructive promotion of private economic development in a country or region abroad.

The Crucial Questions

- Is the Administration willing to commit the political capital necessary to address this issue through legislative change?
- Is the President aware that, despite the positive climate for change, his program to encourage economic growth and more open societies through the stimulation of private enterprise remains unfulfilled?
- Is the Administration satisfied with the current means of coordination of US policy for foreign assistance, trade and security assistance to key countries and regions?
- Are we going to depend upon AID and its staff to promote international private enterprise, or is there a better way?